



California High-Speed Rail Authority

Preliminary Funding Strategy and Finance Plan: Bay Area to Anaheim Segments - Presentation



**Infrastructure
Management
Group/Lehman Brothers
Team**

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***In Partnership with:*
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Bauer & Associates
Jack Faucett Associates
CDS Consulting
Dutch Ventures LTD**

Finance Plan



To fund the Project's estimated costs of \$30 B for construction and \$500 MM in finance fees, the Authority must access private, state, federal, local sources.

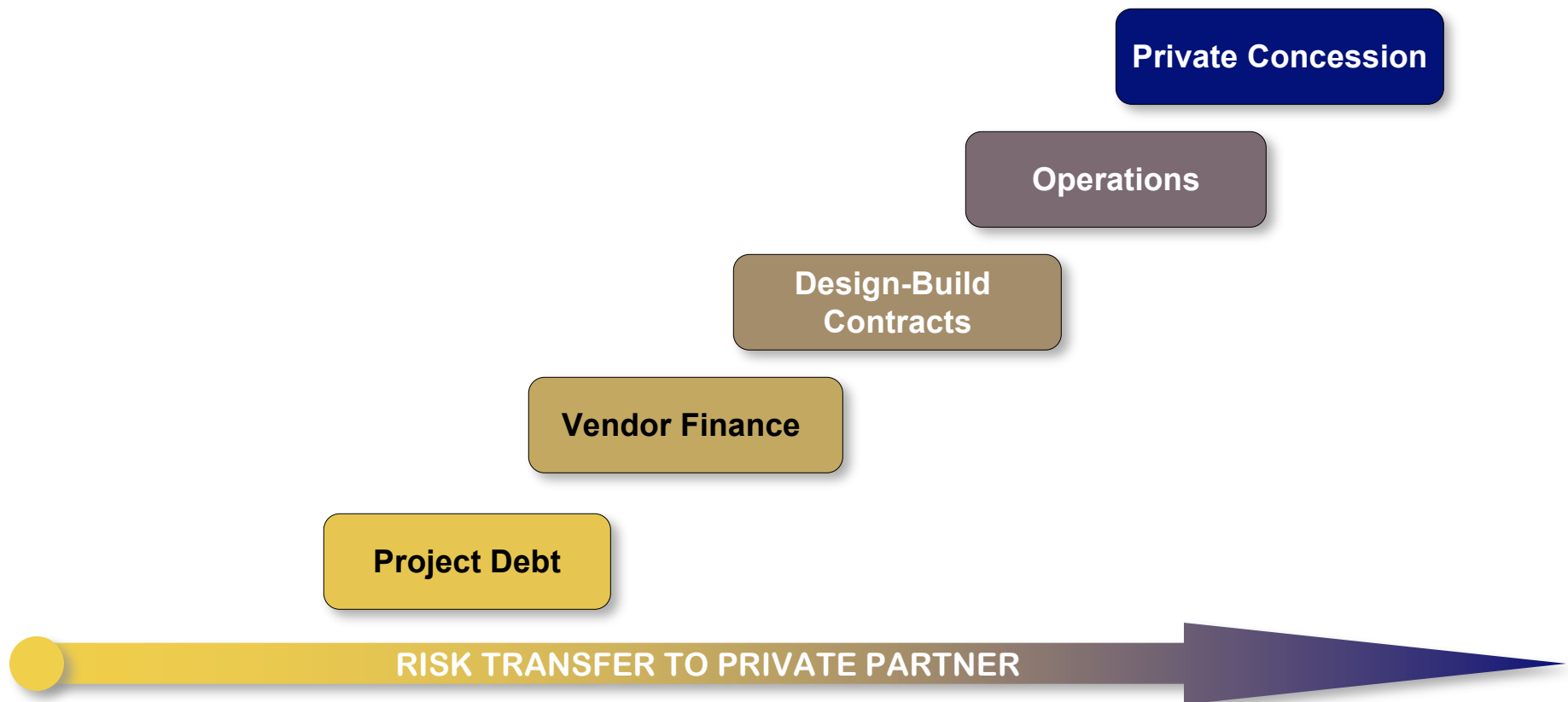
<u>Funding Sources</u>	<u>Amount (in \$B)*</u>
Public-Private Partnerships (P3)	\$5 to \$7.5
State Support	\$9 to \$12.5
Federal Support	\$10 to \$12.5
Local Partnerships	\$2 to \$4
Additional Funding Sources	
Environmental "Benefit Capture"	\$0.5 to ?
Additional Local Corridor Cost Sharing	\$1 to \$3
Total Funding	\$27.5 to \$39.5

*All figures are in 2006 dollars.

Public-Private Partnerships - Overview




Based on initial conversations with private companies, P3s could serve as a financing source a portion of the Project, absorbing certain risks.





Public-Private Partnerships – State Commitment



The Project's funding will likely comprise private and public sources; however, local, state and federal support will be important early on.

- Private participation could be expected in the range of \$5.0 to 7.5 B through several funding mechanisms. 

Project debt
Vendor financing
System operations
Private ownership
- The extent and cost of private funding will reflect the risks inherent in the Project. 

Environmental
Political
Construction
Ridership
- Public support, both financial and political, is needed to create an opportunity for the Authority to leverage private participation. 

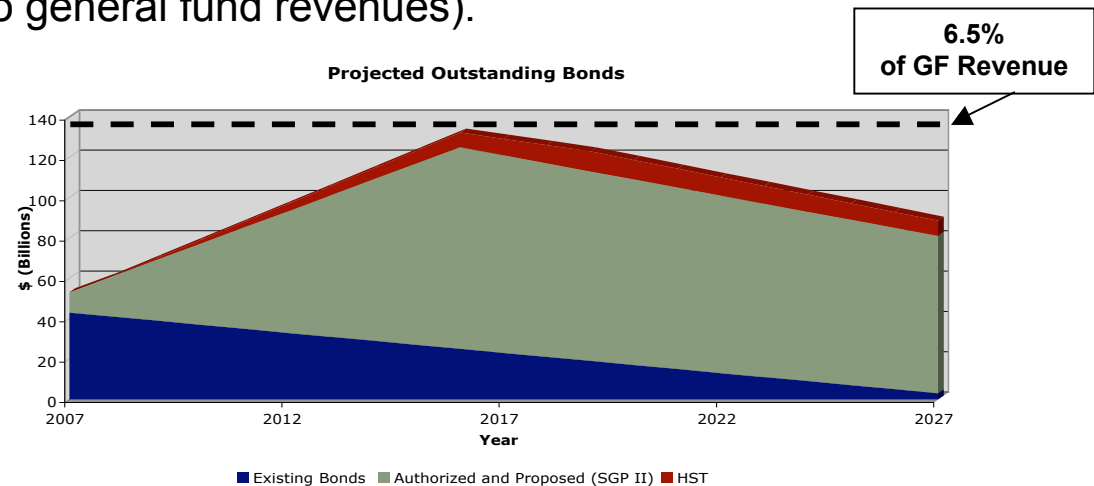
Certain governmental powers (e.g., eminent domain) are not available to private partners

State Support – Both Vital and Affordable



The \$9.95 B in GO Bonds already scheduled for the 2008 ballot are affordable under the Administration's current debt capacity guideline.

- The Governor projects \$100 B in bonds to be issued through FY 2015-16; \$9 B in GO Bonds HST bonds could also be issued without exceeding a debt ratio of 6.5 percent (ratio of debt service to general fund revenues).
- The State has an estimated GO bond capacity of **\$41 B (\$28 B in 2006 dollars)** beyond the Governor's planned \$100 B – without exceeding a debt ratio of 7.0 percent.
- The State also could support the Project through the issuance of bonds backed by a dedicated state-wide sales tax, instead of traditional GO bonds, thereby lowering the interest rates and appealing to investors desiring "diverse credits." A sales tax for HST could be "dovetailed" with the end of the current state-wide sales tax for the State's Economic Recovery Bonds (ERBs).



Federal Support



Federal support, both financial and regulatory, is crucial to the success of the Project.

**Targeted
\$10 B to \$12 B**

- **Existing Federal Legislation**
 - Federal share at 50 %
 - Through New Starts and other programs
 - **New Federal Initiatives**
 - New HSR programs
 - Revised terms
 - System approach
-
- California representation on key congressional committees is essential during critical reauthorizations.

Local Partnerships



Private and public mechanisms could generate the \$2 B to \$ 4 B of targeted local funding and would demonstrate important local support.

- **Transit Oriented Development**
 - Parking, other mixed use development
 - Local P3 initiatives
- **Benefit Assessment Districts**
 - Santa Clara Valley Transportation Authority
 - LA's Metropolitan Transportation Authority
- **Station Concessions**
 - Retail, advertising etc.
 - Local P3 initiatives
- **Local Cost Sharing Opportunities**
 - Orange County Transportation Authority
- **Air Rights and ROW Leases**
 - Transbay Joint-Powers Authority

Local Strategic Partnerships

- CA HSR Authority
- Local Government and Transportation Authorities
- Private Developers

Additional Support – State P3 Legislation



Key California legislative changes could encourage greater participation by the private sector.

- Existing law restricts P3 tools to limited numbers and types of projects and imposes a cumbersome review and approval process.
- The Administration and Legislature have not yet achieved consensus on framework for greater use of P3s in California.
- However, proposed legislation for toll road P3s, SB 61, includes **greater flexibility** to includes rail and related facilities.
 - The Authority should encourage SB 61's enactment.
 - Once the P3 framework is established, further legislation could be contemplated.

Additional Support – Local Cost Sharing and Environmental Sources



Additional funding sources could provide from \$1.5 B to more than \$3 B in support for the Project, but may require considerable coalition building.

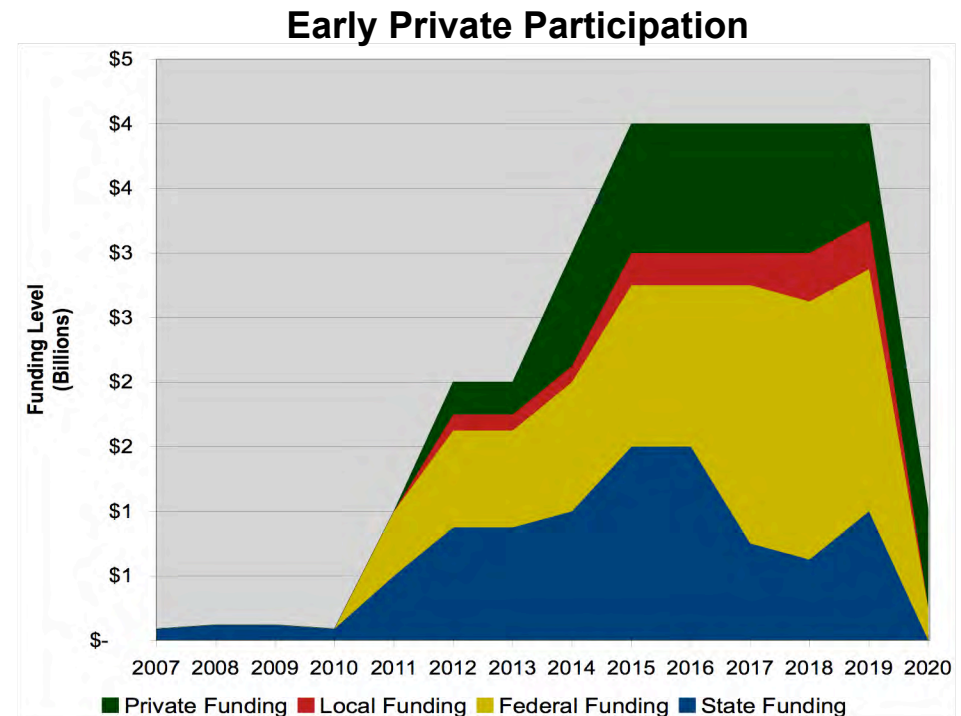
- Currently Project costs include all that are necessary for HST, even if transportation partners need **similar improvements**.
 - Specific elements of the Project, such as grade separations and corridor electrification, benefit other transportation partners.
 - The Authority could share these costs and lower its overall cost.
- With California's focus on reducing emissions, the Authority should leverage the Project's **environmental benefits** to create funding sources.
 - A carbon credit "cap and trade" or direct carbon tax system could be implemented to require investment in clean transportation, like HST, from emissions-heavy transportation, like aviation.
 - Carbon market and state and federal policy decisions will impact the value that could be captured by the Project.

Finance Plan - Project Timing - Early Private Participation



Private participation could occur early with a construction firm/investor consortium that shared in future revenues; however, this is unlikely.

- The State would support all pre-construction engineering work.
- Federal funds would play a role once ROW acquisition and construction begins.
- Local funds will provide support at different times.
- Private funds would support construction throughout the construction period.



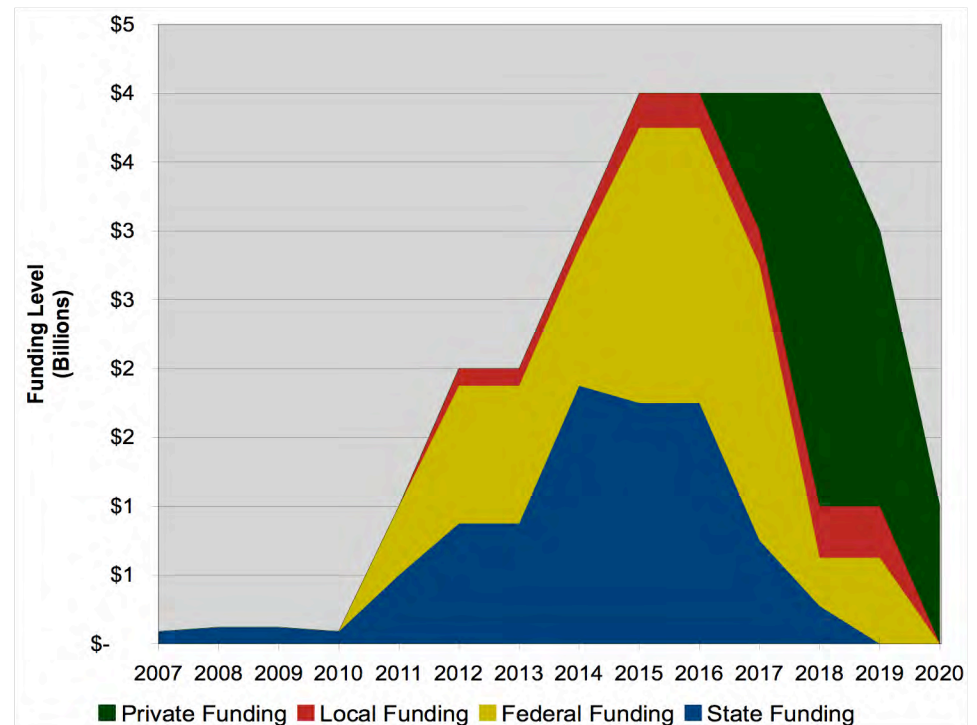
Finance Plan - Project Timing - Mid-Term Private Participation



Private participation could occur during the latter construction phases once completion risk is reduced and funding sources are secure. However, the valuation will still be discounted for ridership risk.

- The State funds would support all pre-construction engineering and early construction.
- Federal funds would play a role once ROW acquisition and construction begins.
- Local funds will provide support at different times.
- Private funds would support construction once the above conditions were met.

Mid-Term Private Participation



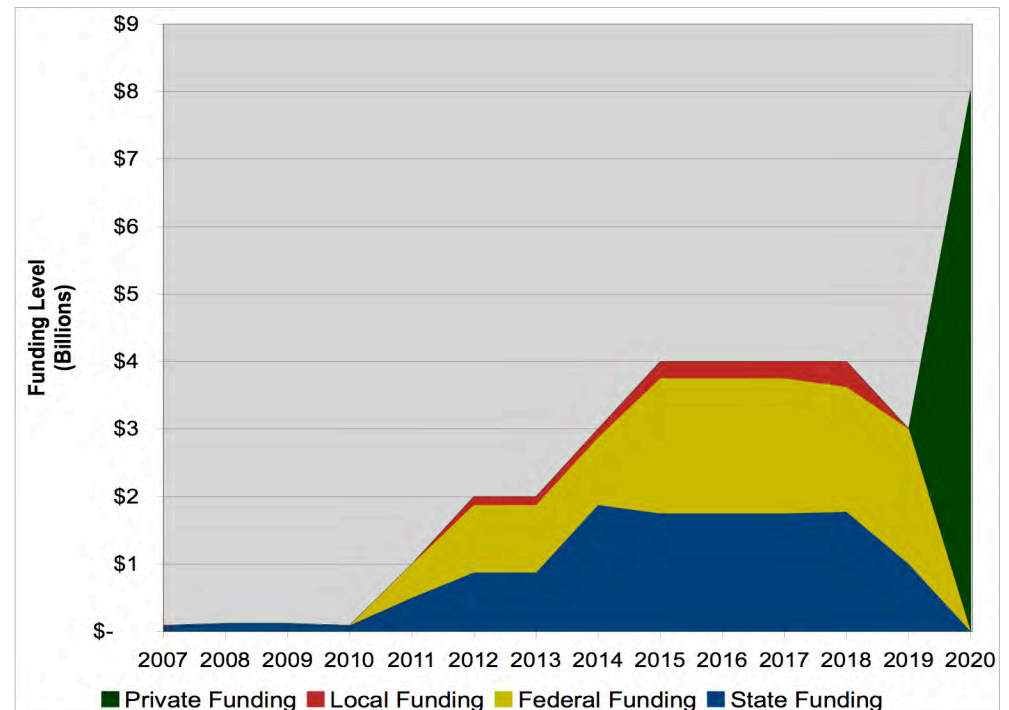
Finance Plan - Project Timing - Operational Opening Private Participation



If completion risk is considered too high, private participation may not be available until operational opening, requiring more up-front state and federal dollars to be repaid with later private investment.

- The State would support all pre-construction engineering and early construction.
- Federal funds would play a role once ROW acquisition and construction begins.
- Additional state/federal funds would be needed during construction.
- Local funds will provide support at different times.
- Private funds would primarily be provided at operational opening and subject to ridership risk.

Operational Opening Private Participation



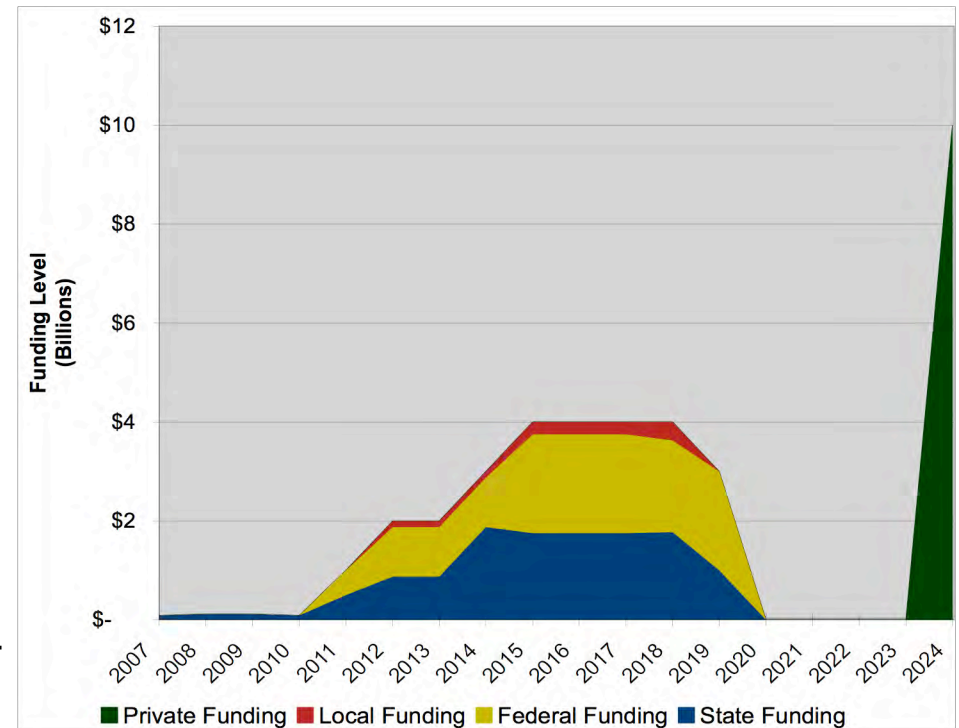
Finance Plan - Project Timing - Later Operational Private Participation



If ridership risk is seen as too high, private participation may not be available until after operational opening, requiring more up-front state and federal dollars to be repaid with a later, larger private investment.

- The State would support all pre-construction engineering and early construction.
- Federal funds would play a role once ROW acquisition and construction begins.
- Additional state/federal funds would be needed during construction.
- Local funds will provide support at different times.
- Private funds would take on long-term ridership risk.

Later Operational Private Participation



Summary



A viable finance plan for California's HST requires both an up-front state funding commitment and significant political capital to obtain other needed federal and private funding.

- State support will be critical to mitigating risks and other sources.
 - Preliminary design and environmental work necessarily will be the responsibility of the public sector
- Federal financial and regulatory support is essential.
 - Both expansion of existing programs and significant new initiatives will be required due to unique scale of the Project.
- Local agencies will be important partners in cost sharing and “value capture” mechanisms.
- Private sector partners will require significant mitigation of key risks, including environmental, political, construction and ridership, or seek higher returns commensurate with perceived higher risks.
 - Early private participation may accelerate and improve Project planning and implementation and further validate Project feasibility.